Nos. 22456 and 22717

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ROYAL INDUSTRIES, a corporation,

Appellant,

vs.

ST. REGIS PAPER COMPANY, a corporation,

Appellee.

BRIEF FOR APPELLANT.

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Royal Industries, a corporation,

Appellant,

vs.

St. Regis Paper Company, a corporation,

Appellee.

BRIEF FOR APPELLANT.

Jurisdictional Statement.

This appeal brief is a consolidated brief from the lower court's denial of the appellant's motion for preliminary injunction [R. 530-535, Appeal 22456] and the lower court's granting of the appellee's motion for summary judgment [R. 14-30, Appeal 22717]. The lower court's jurisdiction for both of these appeals is under the provision of Title 28, U.S. Code, Sec. 1338-(a), 1338(b) [R. 14, lines 24-26]. This court's appellate jurisdiction on the denial of the preliminary injunction is based on 28 U.S.C. 1292 (A-1), the notice of appeal having been filed by the appellant within the prescribed time period [R. 534]. This court's appellate jurisdiction relative to the granting of the motion for summary judgment is under 28 U.S.C. 1291; the notice of appeal having been filed by the appellant within the prescribed time period [R. 31].

Statement of the Case.

This litigation revolves around the appellant's United States Patent No. 2,767,113, Exhibit I to the complaint [R. 2-25]. The complaint includes the license agreement between the parties to this litigation and the Plas-Ties Corporation, a wholly-owned subsidiary of the appellant at the time the complaint was filed in the lower court on July 6, 1967. The agreement between the parties appears as Exhibit II to the complaint [R. 15-25]. The agreement includes a copy of the price list of the Plas-Ties Corporation for the licensed item that was outstanding at the time the agreement was entered into [R. 25]. The license agreement between the parties licensed the appellee herein under the appellant's patent 2,767,113 and the appellant's confidential "know-how" for manufacturing plastic tie strips covered by the patent in suit. Contemporaneous with the entry into the written agreement the parties entered into an oral agreement to maintain prices on the licensed article in accordance with the prices established by the Plas-Ties Corporation [R. 51-53, 149-150].

The patent in suit U. S. 2,767,113 covers the plastic tie strips that are the subject of the license agreement between the parties and the method of manufacturing the plastic tie strips. Claim 1 of this patent covers the plastic tie strips, while the remaining claims in the patent are directed to the method of manufacturing the tie strips. The appellant is the owner of the patent in suit and the confidential know-how developed by the Plas-Ties Corporation to manufacture the tie strips. Upon entry into the license agreement, the appellee herein followed the prices maintained by the Plas-Ties Corporation on the licensed tie strips until the summer of 1966 at which time the Pollock Paper Company Division of the appellee unilaterally reduced the prices below the minimum schedules established by the Plas-Ties Corporation [R. 54]. This breach of the oral price fixing agreement was called to the attention of the appellee's Mr. Lacy [R. 120-122, Appeal 22456] and pursuant to a conference in Los Angeles concerning this matter the prices were re-established by the Pollock Paper Company Division of the appellee [R. 124-128, Appeal 22456]. The prices were reestablished in approximately August 1966 [R. 55]. The prices were maintained by the appellee until May 1967 until, once again, there was a unilateral price reduction by appellee's Pollock Paper Division [R. 56, 130, Appeal 22456]. In view of past history, the appellant attempted to have the appellee re-establish their prices to no avail and as a result, a notice of termination of the agreement was sent to the appellee [R. 130-132] putting them on notice with respect to the breach of the oral price fixing agreement. This letter from Appellant requested that the pricing structure be re-established or the patent license and the "know-how" agreement would be cancelled and the appellee would be considered as infringing the appellant's patent rights and misappropriating the "know-how" [R. 132, Appeal 22456]. The appellee failed to comply with the appellant's request in the notice of termination and therefore the complaint was filed in this action on July 6, 1967.

The complaint charges in its first count infringement of U. S. Patent 2,767,113 and in the second count that the appellee is guilty of unfair competition in the continuous use of the appellant's know-how in the manufacture of plastic tie strips in view of the termination of the agreement between the parties. Along with the filing of the complaint in this action the appellee filed a motion for preliminary injunction requesting that the St. Regis Paper Company be enjoined from further infringement of the patent in suit and unfair competition and misappropriation and use of the appellant's confidential know-how relative to the patented tie strips [R. 27]. The motion for preliminary injunction was denied by the court in a written opinion [R. 530].

During the course of the proceedings of the motion for preliminary injunction, the appellee filed a motion for summary judgment [R. 333, 356]. The appellee's position on the motion for summary judgment was to the effect that the license agreement between the parties was not effectively terminated and accordingly they were shielded from the claim of infringement and unfair competition by means of the license agreement. In addition, in an attempt to show that there were no genuine issues of fact for the purposes of the motion for summary judgment, the appellee took the position that the issues must be presumed as the appellant had presented them to the court but urged that evidence of the oral price fixing agreement entered into along with the written agreement was barred by the parole evidence rule [R. 339-341, Appeal 22456] and that the oral price fixing agreement violated the anti-trust laws, specifically the Clayton and the Sherman Acts. The matter of the legality of such a price fixing agreement as well as the applicability of the parol evidence rule was placed in issue by the parties as a result of the motion for summary judgment. The lower court held with the appellee with respect to both of these matters in granting the motion for summary judgment [R. 18, 22, Appeal 22717].

Royal has appealed from the District Court's ruling for denying its request for a preliminary injunction (Appeal No. 22456) and from the ruling granting St. Regis summary judgment (Appeal No. 22717). The appeals were consolidated for the purposes of expediting the entire review of these matters.

Issue.

It is the appellant's position that at the time it entered into the written licensing agreement, St. Regis orally agreed that it set the prices it charged for the tie strips in accordance with the price list of Plas-Ties and that the failure of the appellee to comply with this oral agreement constituted a material breach of contract, entitling it to terminate the license agreement.

It was the appellee's position that the appellant's patent was invalid, and, therefore, that it would be an abuse of discretion to grant the appellant's request for a preliminary injunction. Additionally, insofar as the motion for summary judgment is concerned, it conceded for purposes of argument that the parties had entered into a contemporaneous oral agreement that St. Regis would fix its prices for the tie strips in accordance with Plas-Ties' prices but took the position that: (1) any evidence of the contemporaneous oral agreement was barred by the California parol evidence rule; and (2) the price fixing agreement was illegal and unenforceable because of the anti-trust laws, specifically the Clayton and Sherman Acts.

Therefore, the principal issue at this state of the proceedings is whether the District Court correctly ruled that, *as a matter of law*, it was barred from taking any testimony concerning the oral price fixing agreement and whether such agreement, *again as a matter of law*, violated the Clayton and Sherman Acts.

It is the position of the appellant that the trial court was in error in refusing to hear the evidence and deciding these complex questions on summary judgment; furthermore, the court actually made factual determinations in reaching its decision; therefore, summary judgment was all the more an improper remedy.

Specification of Errors.

1. The District Court erred in holding that the California parol evidence rule barred any evidence of the contemporaneous oral agreement to fix prices and of the circumstances surrounding the making of that agreement.

2. The District Court erred in ruling as a matter of law that no authorized representative of St. Regis approved or ratified the oral agreement to fix prices.

3. The District Court erred in ruling as a matter of law that it was illegal for Royal to require St. Regis to

fix its prices for the tie strips in accordance with Plas-Ties prices.

4. The District Court erred in determining as a question of law that the "know how" was owned by Plas-Ties and/or that Royal could not validly contract to make this available to St. Regis.

5. The District Court erred in not finding that there were no material issues of fact as required by Rule 56.

6. The District Court erred in holding that, as a matter of law, the contemporaneous oral agreement to fix prices violated the Clayton and the Sherman Acts.

7. The Court abused its discretion in denying the appellant's request for a preliminary injunction to preserve the *status quo* pending a determination of the validity of the appellant's patent, the validity of the oral price fixing agreement, and the right of the appellant to terminate the license agreement because of the appellee's violation of the price fixing agreement.

ARGUMENT.

I.

The District Court Erred in Holding That the California Parol Evidence Rule Barred Any Evidence of the Contemporaneous Oral Agreement to Fix Prices and of the Circumstances Surrounding the Making of That Agreement.

On pages 5-9 of the Memorandum Decision [R. 18-22, Appeal No. 22717], the District Court elaborated its conclusion that the California parol evidence rule absolutely prohibited the Court from receiving any evidence to prove the existence of a contemporaneous oral agreement to fix prices. (Mixed in with this was some discussion about the lack of authority of the Pollack officials to enter into such an agreement). The Court clearly made a judgment on the facts on this issue, *e.g.*

> "Thus, the matter of price reduction appears to have been considered in the document, and it would seem logical to include a price fixing agreement at that point. It does not appear to this Court that parties similarly situated would make a price fixing agreement a separate agreement." [R. 21, lines 16-21, Appeal No. 22717].

One could scarcely find language more appropriate to announce a decision on a question of fact. On summary judgment, the question of what is "logical" is scarcely germane. Rather, it is what inferences most favorable to the appellant might be drawn from the evidence. There was an abundance of evidence that the parties had entered into a contemporaneous price fixing agreement. For example, Mr. J. R. Johnson, the president of Royal testified at his deposition as follows:

> "A Yes. Mr. Gary, the patent attorney for St. Regis, and, I believe, Mr. Lacy objected strenuously on including anything in the agreement regarding price fixing because they said that we would probably have to go to jail as it was illegal, and that they would not put anything like that into the agreement.
>
> "Mr. Gary would not permit his client to put anything like that in the agreement. And I said, 'Well, if that is the case we simply can't reach an agreement.'
>
> "Then Mr. Jacobs, Mr. Lacy and Mr. Gary, not once but many times, recited to me that 'While we can't put that in the agreement, you have our positive assurance at all times that we will respect your prices. *There may come a time when we may want you to drop prices, and in such event we will come to you and ask you, but if you don't think you can, and it is not the right thing to do, then we will stay with your price.*'
>
> "And it almost got humorous because not once, but, I would say, 15 times in the course of those negotiations, both Mr. Jacobs principally, and a few times Mr. Lacy, referred to the similar understanding that they had with another company—I think it was Marathon—on another product, and that they were very ethical people, that is, Pollock, and they had always respected the other person's pricing, and that we would be fools to cut prices; they did not do that, they did not act that way, and I had their positive assurance, as businessmen

and gentlemen, that they would never cut our prices.

"Our attorneys advised me—Mr. DaRin or Mr. Hale, I don't remember which—that we could write into the agreement something to protect us on prices. And I said, 'Look, I feel that I am dealing with people who are honest. If they have a concern of this kind we don't need it in the agreement. I have absolute faith that these people are honest and that I can work with them over a long period of time. As far as I am concerned, we have a complete, positive, thorough understanding expressed by all three of them that they will at all times respect Royal's pricing.'

"Therefore, we did not write it in the agreement.

"Q. To the best of your recollection, that was the only reason that the matter of price maintenance, if you want to call it that, was not included in any draft of the agreement?

"A. Yes. It was Mr. Gary's advice to Mr. Jacobs and Mr. Lacy that he would not let them as a client be involved in an illegal action, such as price fixing, and he would not, absolutely, let them write it in the agreement.

"So I said, 'Okay, if I have your positive assurance. I don't think there is anything illegal about it.' My reasoning for this was completely sound, and the position I took was completely sound, and they didn't disagree with me at all. My reasoning was we are a small company—

"Q. Is this what you expressed to them?

"A. Yes. This was the statements that I made to them, essentially. Our company was a small

> company. I used the remark: 'We are giving you our birthright. You can'—that is, Pollock—'can actually give this product away if you wish and thereby enable you to sell more bread wrappings.'
>
> "So, on the other hand, this is our only product in Plas-Ties. We don't make bread wrappings. We don't make anything else. So I must have protection on pricing because if I don't I might just as well put a gun to my head." [Johnson Deposition, p. 37, line 18, to p. 39].

Furthermore, the District Court expressly found, "After the execution of the license agreement, defendant did, until about February 1966, maintain its prices for the products manufactured under the patented process in line with those of Plas-Ties Corporation." [R. 17, lines 25-28, Appeal 22717]. This is most persuasive evidence of the existence of a contemporaneous oral agreement in price fixing. It is the undisputed conduct of the parties to the agreement before there was any controversy. They best know what they intended by their deal and their conduct is evidence of that intention, irrespective of the language of the agreement.

> "The acts of the parties under a contract afford one of the most reliable means of arriving at their intention, and, while not conclusive, the construction thus given to a contract by the parties before any controversy has arisen as to its meaning will, when reasonable, be adopted and enforced by the courts. . . .
>
> The reason underlying this rule is that it is a court's duty to give effect to the intention of the parties where it is not wholly at variance with the correct legal interpretation of the terms of the

> contract, and the practical construction placed by the parties on the instrument is the best evidence of their intention."
>
> 12 Cal. Jur. 2d 341, 342, Contracts, Section 129.

As a matter of fact, in making its ruling on the motion for summary judgment, the District Court conceded that there was evidence which would support a finding that, at the time they entered into the licensing agreement, the parties entered into an oral price fixing agreement. However, the Court felt that it was barred by the California parol evidence rule from receiving any evidence of this agreement.

This is a misconception of what the parol evidence rule in California is. One can always prove the existence of a contemporaneous oral agreement which is not inconsistent with the terms of the written agreement. Moreover, it is almost always necessary for the Court to hear all of the testimony about the negotiations leading up to the agreement before it can determine, *as a question of fact,* whether or not the parol evidence rule applies. This doctrine was recently reaffirmed by the California Supreme Court in the case of *Masterson v. Sine* (February 1968) 68 A.C. 223, where the Court said at pages 227-228:

> ". . . The requirement that the writing must appear incomplete on its face has been repudiated in many cases where parol evidence was admitted 'to prove the existence of a separate oral agreement as to any matter on which the document is silent and which is not inconsistent with its terms' —even though the instrument appeared to state a complete agreement. (E.g., *American Industrial*

Sales Corp. v. Airscope, Inc. (1955) 44 Cal.2d 393, 397 [282 P.2d 504, 49 A.L.R.2d 1344]; *Stockburger v. Dolan* (1939) 14 Cal.2d 313, 317 [94 P.2d 33, 128 A.L.R. 83]; *Crawford v. France* (1933) 219 Cal. 439, 443 [27 P.2d 645]; *Buckner v. A. Leon & Co.* (1928) 204 Cal. 225, 227 [267 P. 693]; *Sivers v. Sivers* (1893) 97 Cal. 518, 521 [32 P. 571]; cf. *Simmons v. California Institute of Technology* (1949) 34 Cal.2d 264, 274 [209 P.2d 581].) *Even under the rule that the writing alone is to be consulted, it was found necessary to examine the alleged collateral agreement before concluding that proof of it was precluded by the writing alone.*" (Emphasis added).

See also:

> *American Industrial Sales Corp. v. Airscope Inc.,* (1955) 44 Cal. 2d 393, 397, 282 P. 2d 504, 49 A.L.R. 2d 1344.

In its comments on the applicability of the parol evidence rule, the District Court said:

> "It does not appear to this Court that parties similarly situated would make a price fixing agreement a separate agreement" [R. 21, lines 19-21].

Nonetheless, there was evidence in the record that this is just exactly what they did. Therefore, the Court was wrong in reaching the foregoing conclusion on summary judgment. Moreover, the Court's observations overlook one other very significant fact. The royalty that St. Regis pays to Royal is based upon the prices charged by *Plas-Ties*. This is most unusual. It is much more common for a licensee's royalty to be determined by its own prices. Therefore, the fact that St. Regis' royalties were to be determined by Plas-Ties' prices strongly suggests that there may have been some collateral agreement between the parties tying St. Regis' prices to those of Plas-Ties.

At any rate, on summary judgment, it was not the Court's function to determine what was "logical." Its only duty was to determine what possible inferences might arise from the evidence. If there was evidence which would support a finding that there was a collateral oral price fixing agreement, the Court should have disregarded any contrary evidence on the motion for summary judgment.

II.

The District Court Erred in Holding as a Matter of Law That No Authorized Representatives of Appellee Executed or Approved the Oral Agreement to Fix Prices.

The question of whether or not Messrs. Lacy, Jacobs and Gary had authority to enter into an oral agreement in behalf of Pollock and/or St. Regis to fix prices was most certainly a question of fact. They were admittedly employees of Pollock sent out to negotiate a licensing arrangement with Royal and they exercised considerable authority in the matter. For example, Mr. Lacy gave Royal a check for $20,000.00 long before the licensing agreement was formally ratified in New York:

> "A. Well, we showed them how to manufacture our product, and believe me, there's considerable confidential know-how. Evidently Pollock agreed with us there was confidential know-how, because

when the agreement was signed in Los Angeles on May 2nd, I believe it was, or May 1st, by then Lacy and myself and Jerry Bower, we would not let Lacy even see our plant until we received the initial payment, which I think was $20,000. It wasn't until Lacy signed the agreement in my office in Pasadena and gave me the $20,000 check that I even let him in the door.

"Now, he must have been of the opinion there's something pretty worthwhile here or he wouldn't have done that." [Johnson Deposition, p. 91, line 22, to p. 92, line 5].

"Q. You have referred to a $20,000 payment for this know-how. Plas-Ties did receive a $20,000 payment?

A. Ben Lacy gave me this, and it was then that I permitted him to visit the plant, which was May 3rd, which is contained in one of the exhibits here. We did not let him visit our plant until we got the money." [Johnson Deposition, p. 95, line 25, to p. 96, line 5].

Mr. Johnson went on to testify as to his understanding as to the formal approval of the agreement by St. Regis headquarters as follows:

"Q. Mr. Johnson, with respect to this license agreement that you entered into with the St. Regis Paper Company do you recall when it was signed by the different individual and where?

"A. I think it was signed May 2nd, 1963. It was signed in our offices at 201 South Lake Street by Mr. Bower, Mr. Lacy and myself, then forwarded routinely to New York for the signature of St. Regis.

"Q. Did the officers of the Pollock Division represent in any fashion what the problems would be, if any, with respect to obtaining St. Regis' approval or signatures, or otherwise?

"A. Yes. Mr. Jacobs originally said in our negotiation meetings, and then at the time of signature Mr. Lacy repeated, that while their signatures comprised the complete agreement, because they were a division of St. Regis they were required to send it in for what they referred to as just the routine and necessary formality of having the president of St. Regis sign the agreement.

"They assured me, and of course it came to pass, that there were no problems raised by St. Regis whatsoever." [Johnson Deposition, p. 100, lines 2-22].

Furthermore, as found by the District Court, the appellee, fixed its prices in accordance with the oral agreement for a continuous period of almost three years; then, when St. Regis reduced its prices, and Royal complained, the former raised them to Plas-Ties!

These facts alone warrant an inference that the appropriate officials of St. Regis approved of and ratified the oral agreement.

Finally, the appellee clothed Messrs. Lacy, Jacobs and Gary with ostensible authority to make the deal, including the oral agreement. Having done so and having enjoyed the fruits of the bargain for so long a time, it should not now be heard to say that their representatives had no authority to do the very thing they were sent out to do. For, it must be remembered that

"An agent may bind his principal by acts within the scope of his ostensible authority. Ostensible authority, or apparent authority as it is often termed,[6] is that authority which a principal, intentionally or by want of ordinary care, causes or allows a third person to believe the agent to possess.[7] This is the embodiment of a well-established common-law principle which has been called the foundation of the law of agency.[8] By its application, an ostensible agency exists where the business done by the supposed agent, so far as it is open to the observation of third parties, is consistent with the existence of an agency, and where, as to the transaction in question, the party dealt with is justified in believing that an agency exists.[9] If a principal by his conduct has led others to believe that he has conferred authority upon an agent, he cannot be heard to assert, as against third persons who have relied thereon in good faith, that he did not intend to confer such power.[10]

The doctrine is based upon the equitable principles of estoppel in pais,[11] and stands as a shield against the working of an unjust injury to third persons.[12] Moreover, the general doctrines of estoppel unquestionably apply to agencies, for it has been held that an act of the principal which operates as an estoppel in pais confirms an act of his agent done without authority,[13] and that the agent himself will be estopped by his own declarations of agency to deny that he was acting for his principal.[14]"

3 Cal. Jur. 2d 693-694, Agency, Section 47.

Mr. Johnson testified if the appellee's representatives were unwilling or unable to enter into an agreement on price fixing ". . . Well, if that is the case we simply can't reach an agreement." Therefore, the extent of the authority of Messrs. Lacy, Jacobs and Gary to enter into a contract, whether St. Regis ratified the contract, or whether St. Regis should be estopped from asserting the parol evidence rule are all questions of fact. The District Court improperly decided these questions as matters of law in granting summary judgment.

III.

The District Court Erred in Ruling as a Matter of Law That It Was Illegal for Royal to Require St. Regis to Fix Its Prices for the Tie Strips in Accordance With Plas-Ties' Prices.

In discussing the anti-trust features of the case, the District Court in almost shocked incredulity stated:

> ". . . such oral price fixing agreement could have no legal effect since it violates the Sherman and Clayton Acts' prohibition against agreements in restraint of trade *in that it would require defendant to sell its products made under the patented process at the price fixed by Plas-Ties Corporation, an entirely separate corporation from plaintiff."* (Emphasis added). [R. 22, lines 10-20, Appeal No. 22717].

There was ample evidence in the record to support an inference that Royal had at least the power and in fact, did, set Plas-Ties prices. Even by the District

Court's reasoning, Plas-Ties was not a conventional licensee of Royal; therefore, it would be necessary to hear all of the evidence on this question before deciding just exactly what the relationship between Royal and Plast-Ties was. Only after such a factual determination would the trial Court be in a position to decide the applicability of the *General Electric* doctrine.

Whether Plas-Ties was "an entirely separate corporation from plaintiff" was a question of fact. However, if it be conceded that, under the doctrine of *United States v. General Electric Co.*, 272 U.S. 476 (1926) case a patentee may require its licensees to sell the patented item at an agreed price, the patentee is free to use any standard that it wants to set its price. There is nothing illegal in having the fixed price be determined by one particular licensee, especially when at the time the second licensing agreement is entered into, the particular licensee is the only manufacturer of the patented item. A patentee might have such confidence in the ability of its first licensee to exploit the market that it is willing to let the licensee set its own prices. (It is not suggested that this is the situation in the case at bar.) If the patentee insists that a second licensee must agree to set its prices at those of the first licensee, the second licensee is free to accept or reject this proposal. Having done so, it cannot violate that agreement with impunity. It must accept the burdens as well as the benefits of the contract. It is no concern of the trial Court that the patentee chose the prices of its first licensee as the standard to which a subsequent licensee must comply.

IV.

The Court Erred in Determining as a Question of Law That the "Know How" Was Owned by Plas-Ties and/or That Royal Could Not Validly Contract to Make This Available to St. Regis.

One of the major predicates of the District Court's opinion is its determination that the "know how" was owned by Plas-Ties, not Royal; that Plas-Ties was a separate entity from Royal; and accordingly, the Court seemed to conclude that nothing Royal did about this "know how" would be effective as regards St. Regis absent some overt act of concurrence by Plas-Ties. The vice of this reasoning is that the Court in effect made determination of fact to reach this result. For example, the Court stated:

> "Actually, the second count makes clear that the 'know how' is the know how of Plas-Ties Corporation, now a wholly owned subsidiary of plaintiff; Plas-Ties is not a party to this action" [R. 15, lines 1-4, Appeal 22717].

The foregoing conclusion is one of fact that just might possibly be wrong. For example, the recitals in the licensing agreement state clearly and unequivocally that Royal owns the "know how". Paragraph 3 states that Royal will furnish certain information, actually "know how", to Pollock. Paragraph 4 binds Pollock to reimburse Royal should the latter's people incur travelling expenses in telling Pollock know how. By Paragraph 11, Pollock binds itself to Royal to hold Royal's "know how" in confidence. Hence, the express language of the licensing agreement constitutes substantial evidence that Royal, not Plas-Ties, owned the "know how" that was the subject matter of the contract. Therefore, the District Court's references to the fact that Plast-Ties owned the "know how" and the conclusions the Court drew therefore are altogether improper to sustain a summary judgment because the ownership of the "know how" between Royal and Plas-Ties was certainly a question fact.

However, of more fundamental importance is the fact that, irrespective of who owned the "know how", Royal was free to enter into an agreement with St. Regis to furnish the "know how" to it. It would then be Royal's problem to comply with this contractual obligation. There is no complaint that it failed to do so; therefore, one reasonable conclusion, at this stage of the proceedings, is that Royal acquired whatever "know how" it needed to meet its end of the bargain; and therefore, it can complain of St. Regis' continuing to use this "know how" in the event the latter breached its contract.

In short, ownership of the "know how" is essentially immaterial in this lawsuit insofar as St. Regis is concerned.

V.

The Court Erred in Granting the Defendant's Motion for Summary Judgment in Not Finding That There Were No Material Facts in Dispute as Required by Rule 56.

It is basic law that summary judgment is a drastic remedy which must be denied if there is a genuine issue as to a single material issue of fact. *Hycon Mfg. Co. v. H. Koch and Sons* (1955), 219 F. 2d 353; *Cee-Bee Chemical Co. Inc. v. Delco Chemical Inc.,* (1958) 263 F. 2d 150; *Walker v. General Motors Corp.,* (1966) 362 F. 2d 56. In the case at bar there were material issues of fact in dispute. Even the appellee conceded as much in its memorandum of points and authorities in support of its motion for summary judgment:

> "The written license agreement, the relationship of the parties, and the informal license between Royal and Plas-Ties are all controverted facts." [R. 2, line 1; R. 3, line 1, Appeal 22719].

Additionally, the appellee vigorously disputed the validity of Royal's patent. St. Regis conceded that these issues of fact existed, but took the position that there was no legitimate issue of fact on the narrow grounds under which it sought relief [R. 507, 508 Appeal 22456]. The District Court did not make a blanket finding that there was no material issue of fact; instead, in its memorandum decision which the Court said, ". . . constitutes the findings and conclusions of the Court upon the motion for summary judgment" [R. 27, Appeal 22717], the Court made the following statements:

> "There are no material facts which are in dispute upon the question as to whether or not defendant still has a valid license to use the potential process and the 'know how'" [R. 17, lines 2-6, Appeal 22717].
>
> "As stated before there are no material disputed facts herein for the purposes of the motion for summary judgment. The Court need not go into the question as to whether or not the patent is valid or invalid." [R. 26, lines 3-6, Appeal 22717].

It is doubtful that these remarks constitute compliance with the technical rule enunciated by this Court in *Neff Instrument Corp. v. Cohu Electronics, Inc.,* (CA 9, 1959) 269 F. 2d 668, where the Court said at page 673:

> ". . . Yet on this record the district court granted a motion for summary judgment, apparently feeling the moving party had met and sustained its burden.
>
> > 'On a motion for summary judgment the burden of establishing the nonexistence of any genuine issue of fact is upon the moving party, all doubts are resolved against him, and his supporting affidavits and depositions, if any, are carefully scrutinized by the court. * * * On appeal from an order granting a defendant's motion for summary judgment the circuit court of appeals must give the plaintiff the benefit of every doubt.' Walling v. Fairmont Creamery Co., 8 Cir., 1943, 139 F.2d 318, 322.
>
> We cannot agree with the lower court's implicit conclusion that no material issue of fact remained before him. We would find error, had such a finding been made.
>
> But here no such broad finding was made below. The court found: 'That as to each of the facts hereinafter specifically found, there is no genuine issue.' No finding was made that there were no other material facts in issue which were not specifically found upon. See New & Used Auto Sales, Inc. v. Hansen, 9 Cir., 1957, 245 F.2d 951, 953; Sequoia Union High School Dist. v. United States, 9 Cir., 1957, 245 F.2d 227. See Also, Byrnes v. Mutual Life Ins. Co., 9 Cir., 1954, 217 F.2d 497, 500, and cases quoted therein.

We affirm the technical rule, sufficient in itself to require reversal in this case, that the court below made no finding that 'there is no genuine issue as to any material fact,' as the rule requires before a summary judgment may be granted." (Emphasis added).

The *Neff* case is authority for reversal in the case at bar.

VI.

The District Court Erred in Holding That, as a Matter of Law, the Contemporaneous Oral Agreement to Fix Prices Violated the Clayton and the Sherman Acts.

The District Court ruled that the oral price fixing agreement was unenforceable because it violated the Clayton and Sherman Acts in requiring St. Regis to fix its prices in accordance with those of Plas-Ties, "an entirely separate corporation from plaintiff" in the court's language. The relationship of Royal to Plas-Ties, particularly as regards the prices the latter was to charge for the tie strips, was a question of fact which could be determined only after the trial court heard all of the evidence on the question. For example, at the time the license with St. Regis was entered into, Royal owned 80% of Plas-Ties, it totally directed its corporate affairs, *even to the point where it was necessary for Plas-Ties to have the consent of Royal in order to change its prices.*

One of the basic questions of fact that the Court had to decide before it properly should reach the anti-trust features of the case was whether or not Plas-Ties had the right to set its own prices. If Royal set Plas-Ties prices, under the *General Electric* doctrine, Royal would validly require St. Regis to follow those prices.

On the other hand, if the court should find that Plas-Ties was free to set its own prices and that St. Regis agreed to follow those prices, it does not automatically follow that this arrangement would be illegal. *General Electric* stands for the proposition that a patentee may require a licensee to maintain its prices in conformity with those of the patentee. This doctrine was recently reaffirmed by the Supreme Court in the recent case of *United States v. Huck,* 227 F. Supp. 791, affirmed at 383 U.S. 197 (1965). (The *Huck* decision specifically considered *Line Material Co., U.S. Gypsum* and *New Wrinkle,* relied on by the District Court). In the case at bar, the patentee, Royal, does not engage in the manufacturing of the patented product. Instead it has assigned that task to Plas-Ties, its subsidiary. The trial court characterized this arrangement as "an informal license", whatever that is. (As mentioned above, the nature of the relationship is a question of fact.) However, this fact alone should not deprive the patentee of his right to protect his government granted monopoly by requiring a subsequent licensee to maintain prices in accordance with those set by the patentee for its subsidiary.

On the other hand, the District Court found as a matter of fact that Plas-Ties was a wholly separate corporation which enjoyed an informal license from Royal and which was perfectly free to set its own prices. The court flatly stated that Royal could not require St. Regis to tie its prices to Plas-Ties. It is not clear from the Court's memorandum decision just what its reasoning was. It may have felt that the *General Electric* doctrine is limited to a single licensee. (*Newbury Moire v. Superior Moire Co.,* (CCA 3) 237 F. 2d 283.) This circuit has not passed on this question. The Fourth Circuit uphold a multiple license situation in *Glen Raven Knitting Mills v. Sanson Hoisery Mills,* 189 F. 2d 845, and in *Westinghouse Electric Corp. v. Bulldog Electric Products* (CCA 4 1950) 179 F. 2d 139. The Sixth Circuit reached the same result in *Prestole Corporation v. Tinnerman Products, Inc.* (CCA 6, 1959), 271 F. 2d 146.

The latter cases point out that the mere fact that a patentee may have entered into multiple licenses in which he has endeavored to maintain prices is not illegal. Before the patentee will be denied the protection of the *General Electric doctrine,* it is necessary to find a horizontal price fixing area arrangement or some conspiracy or restraint of trade.

There are no facts in the record to warrant such a conclusion especially on summary judgment in the light of the vast economic power of St. Regis compared to Plas-Ties.

The District Court's decision is based upon its factual determination concerning the status of Plas-Ties and its relationship to Royal. It cannot be gainsaid that the court failed to draw the inferences most favorable to the appellant on these issues. Therefore, summary judgment was not proper.

VII.

The District Court Abused Its Discretion in Denying Appellant's Request for a Preliminary Injunction.

The District Court denied the appellant's motion for a preliminary injunction to compel St. Regis to comply with the oral pricing agreement. No doubt, the court reached its decision because of its conclusions concerning the separate identity of Plas-Ties and the unenforceability of the oral pricing agreement because of the parol evidence rule and the anti-trust laws. The appellee vigorously disputed the validity of Royal's patent but the district court did not reach this issue.

It is the appellant's position that, in view of the presumptive validity of its patent and the fact that St. Regis maintained its prices almost without interruption from May 1963 until May 1967, a court of equity should have restrained St. Regis from violating the pricing agreement *pendente lite*. Otherwise, Royal and/or Plas-Ties will suffer irreparable damage. This is particularly true where St. Regis wields such disproportionate economic power to Plas-Ties. The last peaceful non-contested status of the parties was before St. Regis' unilateral reduction of prices in May 1967. That status should be maintained until there has been a full hearing on the merits. The relationship of Royal to Plas-Ties should not stand in the way of this remedy.

> "A court of equity, in order to do justice, does not hesitate to disregard a corporate entity and to recognize that all of the assets of a solvent wholly

owned subsidiary are equitably owned by the parent corporation."

Continental Distilling Corp. v. Old Charter Distillery Co., et al., (CCA-DC 1950) 188 F. 2d 614, at page 620.

Conclusion.

The appellant established *prima facie* that St. Regis orally agreed to set its price in accordance with those of Plas-Ties; that the latter's violation of this agreement constituted a material breach of contract entitling Royal to terminate St. Regis' license and to compel the latter from infringing its patent and appropriating its know how. A proper decision could be had only after a full hearing on the merits.

It was error to decide this case on summary judgment and to deny appellant protective relief *pendente lite.*

Respectfully submitted,

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and
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By Robert M. Newell,
Attorneys for Appellant.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

Robert M. Newell